

GASB 87 LEASE TERM CALCULATION

Instructions: Use this calculation to determine a lease contract’s term including any options to extend or terminate. Each question must be evaluated to determine if the term will be extended or terminated beyond the noncancelable period (minimum contract length).

CAUTION: When determining if the contract is a **SHORT-TERM LEASE**, remember the **MAXIMUM** possible term is no more than 12 months including all options **REGARDLESS** of the probability of being exercised. (i.e., assume options to extend **WILL** be exercised and options to terminate will **NOT** be exercised).

WHAT TO USE	OPERATION	CAUTION	CAUTION
Noncancelable Period	Plus (+)	For each question to the left, the outcome must be reasonably certain (more than probable) (>75%)	Periods where BOTH lessee and lessor have option to terminate or extend without permission of other party are excluded from lease term
Will the LESSEE exercise the option to extend?	Plus (+)		
Will the LESSEE NOT exercise the option to terminate?	Plus (+)		
Will the LESSOR exercise the option to extend?	Plus (+)		
Will the LESSOR NOT exercise the option to terminate?	Plus (+)		
Lease Term	Equals (=)		

Governmental GAAP Guide

The concept of reasonably certain was considered by the GASB as part of the deliberations for what became the new leasing provisions. The Board could have used probable in a similar vein to contingencies. Many practitioners consider it probable to have a 75% certainty. The GASB believes reasonably certain is a higher threshold than probable and is analogous to reasonably assured. Professional judgment is likely needed to determine a threshold for this amount of certainty.

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